

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

JOSEPH W. COATES

OCTOBER 26, 2012



DOCKET NO. 2012-218-E

**Application of South Carolina Electric & Gas Company for Increases
and Adjustments in Electric Rate Schedules and Tariffs and Request
for Mid-Period Reduction in Base Rates for Fuel**

DIRECT TESTIMONY OF JOSEPH W. COATES

FOR

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DOCKET NO. 2012-218-E

**IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY
FOR INCREASES AND ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND
TARIFFS AND REQUEST FOR MID-PERIOD REDUCTION IN BASE RATES
FOR FUEL**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Joseph W. Coates. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as an auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a Bachelor of Science Degree in Finance from the University of South Carolina in August of 2008. In February 2009, I began my employment with ORS and have been involved in cases related to the regulation of electric, gas, telecommunications, water and wastewater companies.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth the findings and recommendations resulting from ORS's examination of South Carolina Electric & Gas Company's ("Company" or "SCE&G") adjustments 4 through 8 and 28 included in the Application for

1 Increases and Adjustments in Electric Rate Schedules and Tariffs and Request for Mid-
2 Period Reduction in Base Rates for Fuel, in Docket No. 2012-218-E. These findings and
3 recommendations are explained in detail in my testimony.

4 **Q. PLEASE EXPLAIN THE RELATED ORS ADJUSTMENTS.**

5 **A. Electric Operating Revenues**

6 Remove Revenue for New Nuclear Generation – ORS Adjustment #1 (Company
7 Adjustment #6)

8 ORS and the Company propose to remove revenues of (\$83,831,800) associated with the
9 construction of the new V.C. Summer Units #2 and #3 in Jenkinsville, South Carolina. The
10 revenues and expenses associated with the new V.C. Summer Units #2 and #3 are covered
11 under a separate docket and should not be included in base rates. ORS verified the test year
12 revenue of (\$83,831,800) associated with new construction to the Company's books and
13 records. The total amount removed is allocated to retail customers.

14 **Operation and Maintenance Expense – Fuel & Other**

15 Remove Expenses for Employee Clubs – ORS Adjustment #8 (Company Adjustment #4)

16 ORS and the Company propose to remove expenses related to employee clubs, Pine Island,
17 Sand Dunes, and Misty Lake, which are owned and operated by SCE&G. The expenses
18 for these clubs, which are not necessary for the provision of electric service and provide no
19 benefit to the customers, were recomputed and verified to the Company's books and
20 records. ORS and the Company propose to remove (\$412,818) from test year operating
21 expenses. The retail allocated amount is (\$402,126).

Transmission and Distribution ("T&D") Insurance Premium – ORS Adjustment #20
(Company Adjustment #28)

Per Commission Order Nos. 2007-680 and 2010-471, SCE&G was authorized to pay premiums for the T&D insurance policy from funds in the Storm Reserve. In its application, the Company proposes to include premiums totaling \$3,058,167 for the policy in test year operating expenses. ORS does not propose to make this adjustment for reasons discussed in the testimony of ORS Electric Department witness Leigh C. Ford.

Depreciation and Amortization Expense

Remove Employee Clubs – ORS Adjustment #29 (Company Adjustment #4)

ORS and the Company propose to remove depreciation expense related to employee clubs, Pine Island, Sand Dunes, and Misty Lake, which are owned and operated by SCE&G. The expenses for these clubs, which are not necessary for the provision of electric service and provide no benefit to the customers, were recomputed and verified to the Company's books and records. ORS and the Company propose to decrease depreciation expense by (\$143,053). The retail allocated amount is (\$139,045).

Annualize Depreciation Expense – ORS Adjustment #30 (Company Adjustment #8)

ORS and the Company propose an adjustment to annualize depreciation expense using current depreciation rates and test year plant balances. ORS verified the plant balances to the Company's books and records. The depreciation rates were reviewed by the ORS Electric Department. ORS and the Company propose to increase depreciation expense by \$3,635,810. The retail allocated amount is \$3,556,692.

Taxes Other Than Income

Remove Taxes for New Nuclear Generation – ORS Adjustment #37 (Company Adjustment #6)

The Company proposes to remove (\$380,345) of taxes associated with the construction of the new V.C. Summer Units #2 and #3 in Jenkinsville, South Carolina. ORS verified the gross receipts and ORS/Commission assessments. However, the Company is using the gross receipts tax factor for 2011-2012 and ORS is proposing to use the most recent gross receipts tax factor of 0.001487474064 for 2012-2013. Therefore, ORS proposes a reduction of (\$376,153) for taxes associated with the removal of new nuclear construction. The total amount is allocated to retail customers.

Plant in Service

Remove Plant for Employee Clubs – ORS Adjustment #47 (Company Adjustment #4)

ORS and the Company propose to remove plant in service related to employee clubs, Pine Island, Sand Dunes, and Misty Lake, which are owned and operated by SCE&G. The plant in service associated with these clubs, which are not necessary for the provision of electric service and provide no benefit to the customer, were verified to the Company's books and records. ORS and the Company propose to remove (\$4,793,586) from test year plant in service. The retail allocated amount is (\$4,659,126).

Property Retirements – ORS Adjustment #48 (Company Adjustment #5)

ORS and the Company propose to reduce plant in service to reflect pro forma retirements of Nuclear Production, Other Production, Transmission, Distribution and General as of December 31, 2011. ORS verified retirements to the Company's books and records. ORS

1 and the Company propose to reduce plant in service by (\$324,824). The retail allocated
2 amount is (\$318,101).

3 CWIP Closed to Plant – ORS Adjustment #49 (Company Adjustment #7)

4 ORS and the Company propose to increase plant in service for property additions. ORS
5 verified the plant additions to the Company's books and records. ORS and the Company
6 propose to increase plant in service by \$2,694,279. The retail allocated amount is
7 \$2,604,245.

8 Accumulated Depreciation

9 Remove Employee Clubs – ORS Adjustment #52 (Company Adjustment #4)

10 This adjustment removes accumulated depreciation related to employee clubs, Pine Island,
11 Sand Dunes, and Misty Lake, which are owned and operated by SCE&G. The
12 accumulated depreciation was verified to the Company's books and records. ORS and the
13 Company propose to remove (\$1,629,626) from the test year. The retail allocated amount
14 is (\$1,583,915).

15 Property Retirements – ORS Adjustment #53 (Company Adjustment #5)

16 This adjustment reflects the accumulated depreciation associated with the property
17 retirements in Adjustment #48 of Nuclear Production, Other Production, Transmission,
18 Distribution and General as of December 31, 2011. ORS and the Company propose an
19 adjustment of (\$324,824). The retail allocated amount is (\$318,101).

20 Annualize Depreciation Expense – ORS Adjustment #54 (Company Adjustment #8)

21 ORS and the Company propose an adjustment to accumulated depreciation expense to
22 reflect annualized depreciation expense based on current rates. Depreciation expense was

verified to the Company's books and records. Depreciation rates were also verified by ORS's Electric Department to the most recent depreciation study submitted by the Company. ORS and the Company propose to adjust accumulated depreciation expense by \$3,635,810. The retail allocated amount is \$3,556,692.

Construction Work in Progress (CWIP)

Remove CWIP for New Nuclear Generation – ORS Adjustment #58 (Company Adjustment #6)

ORS and the Company propose to remove CWIP associated with the construction of the new V.C. Summer Units #2 and #3 in Jenkinsville, South Carolina. ORS verified the test year CWIP associated with new construction to the Company's books and records. Both the Company and ORS propose to remove (\$1,256,317,802) for new nuclear construction. The total amount allocated to retail customers is (\$1,203,792,755).

CWIP Closed to Plant – ORS Adjustment #59 (Company Adjustment #7)

ORS and the Company propose to remove completed projects from CWIP and move to plant in service. ORS verified the plant additions to the Company's books and records. ORS and the Company propose to reduce CWIP by (\$2,694,279) and move these costs to plant in service. The retail allocated amount is (\$2,604,245).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.